

Trent Ltd (TRENT)

₹ 316

Westside strong; Zara revival aids profitability

'Westside' – Profitable business model set to accelerate

Westside continues to be one of the most successful, established franchises in the women's wear category. With steady same store sales growth (8%) and aggressive store addition (added 18 stores, the highest store addition historically in a single year), revenues from the Westside format grew robustly by 20% YoY in FY18. Westside has proven to have one of the most profitable business models as it primarily focuses on selling private label brands. Share of private label brands has improved significantly from 80% in FY13 to 96% in FY18. In an attempt to enhance the shopping experience, Trent refurbished 11 Westside stores, which translated to 38% growth in footfalls to 36.1 million in FY18. Healthy store addition coupled with steady SSSG is expected to drive revenues, going forward. Hence, we build in 8% SSSG for FY19E, FY20E and expect Westside stores to increase from current 125 to 165 by FY20E (20 stores each year).

Zara – strong revival in profitability....

Zara maintained its robust revenue trajectory despite no new store addition in FY18 (net basis). Revenues grew strongly by 21% YoY to ₹ 1220 crore, depicting healthy SSSG in FY18. Zara saw a significant recovery in EBITDA margins, which expanded 440 bps YoY to 14%. Improved product sourcing and better inventory management were key levers for margin expansion. Subsequently, PAT grew 74% ₹ 83 crore in FY18. The management intends to steadily expand the presence of Zara stores over the next three to four years, primarily in major cities (currently operates 20 stores).

Star market – right sized store expansion

In search of the right format for Star Bazaar, THPL believes the Star Market format (5000-15000 sq ft) is more sustainable. Hence, In FY18, THPL added 10 Star Market stores and shut 19 Star dailies. It currently operates 23 Star Market and 12 Star Hypermarkets. It registered revenue growth of 13% YoY to ₹ 939.5 crore (LTL: 8.1% vs. 2.1% in FY17) with EBITDA losses (excluding other income) widening to ₹ 103 crore vs. ₹ 75 crore in FY17. Rightsizing of store model, along with enhanced private label share would improve the profitability, going forward.

Zudio – aiding growth in value fashion format

During FY18, Trent acquired value fashion apparel business Zudio from THPL on October 1, 2017. Zudio addresses the fast and edgy fashion needs of customers at sharper price points, with infrastructure and backend processes closely aligned with Westside, which enables it to drive better efficiencies. Zudio stores have 100% own brands and are aimed at providing latest trends at affordable pricing. It has a presence across seven exclusive stores and 15 shop in shop locations under the 'Star' banner. Revenues from Zudio grew 22% YoY to ₹ 144 crore, generating revenue/sq ft of ₹ 10407 (₹ 58 crore Zudio revenues recognised in FY18). The company sees value fashion as one of the growth drivers in the medium to long term and intends to scale up the brand significantly in the coming years.

Improved brand performance aimed at delivering profitable growth

Accelerated store expansion in Westside format with calibrated store expansion in other formats like Zudio, Zara and Star market would provide impetus to revenue growth, going ahead. Also, a change in strategy to focus on medium format stores (5000-10000 sq ft) under Star banner and improvement in Zara margins would provide an additional delta in profitability for Trent. We maintain **BUY** rating on the stock with a target price of ₹ 380.

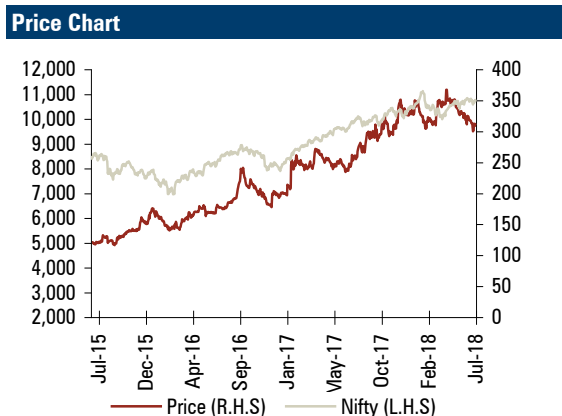
Rating matrix		
Rating	:	Buy
Target	:	₹ 380
Target Period	:	12 months
Potential Upside	:	20%

What's changed?		
Target		Unchanged
EPS FY19E		Unchanged
EPS FY20E		Changed from ₹ 7.6 to ₹ 7.3
Rating		Unchanged

Key financials				
(₹ Crore)	FY17	FY18	FY19E	FY20E
Net Sales	1,834	2,157	2,625	3,096
EBITDA	126	201	267	324
Net Profit	85	87	183	241
EPS (₹)	2.6	2.6	5.5	7.3

Valuation summary				
	FY17	FY18	FY19E	FY20E
EV/Sales	5.9	5.0	4.1	3.5
Target EV/Sales	7.1	6.0	4.9	4.2
EV / EBITDA	86.4	54.0	40.5	33.3
P/BV	6.8	6.6	6.2	5.7
RoNW (%)	3.8	5.5	10.7	13.1
RoCE (%)	7.4	10.0	12.9	14.9

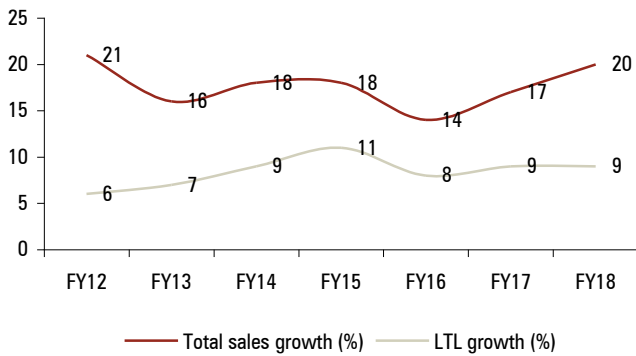
Stock data	
Particular	Amount
Market Capitalisation (₹ Crore)	10,500.7
Total Debt (Mar-18) (₹ Crore)	391.4
Cash and Investment (Mar-18) (₹ Crore)	32.8
EV (₹ Crore)	10,859.3
52 week H/L (adjusted)	377 / 230
Equity Capital (₹ Crore)	33.2
Face Value (₹)	1.0



Research Analyst	
Bharat Chhoda	bharat.chhodal@icicisecurities.com
Cheragh Sidhwa	cheragh.sidhwa@icicisecurities.com

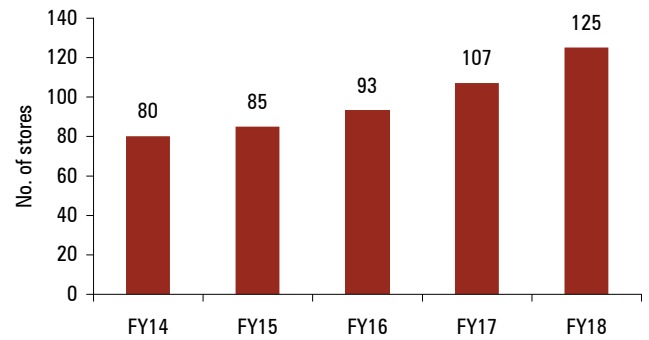
Story in Charts:

Exhibit 1: Westside: Healthy store addition coupled with steady SSSG leads to 20% revenue growth in FY18



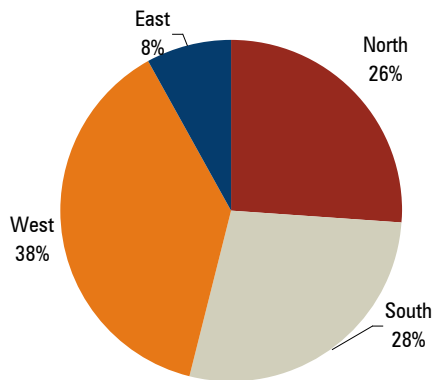
Source: Company, ICICI Direct Research

Exhibit 2: Westside: Accelerates pace of store addition in FY18 by opening 18 stores (highest store addition in a single year)



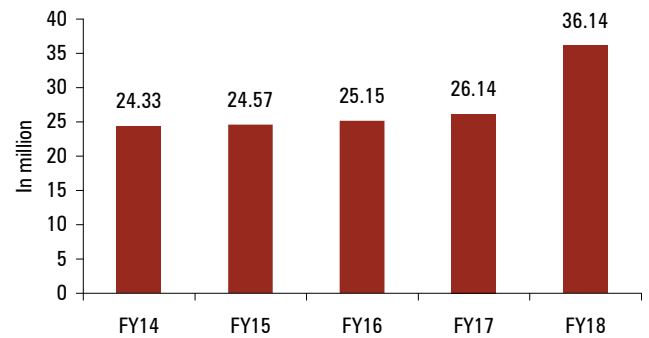
Source: Company, ICICI Direct Research

Exhibit 3: Westside continues to expand its footprint, with combination of micro markets as well as in Tier I cities



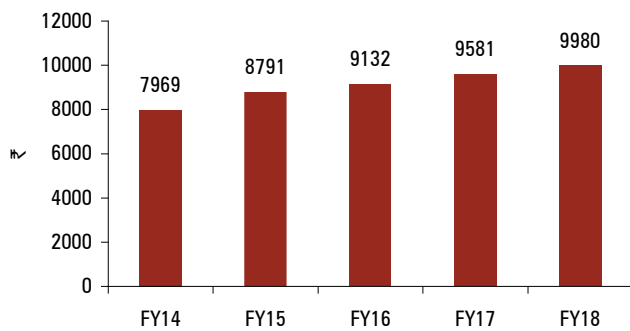
Source: Company, ICICI Direct Research

Exhibit 4: Trent refurbishes 11 Westside stores, translating to 38% growth in footfalls to 36.1 million customers in FY18



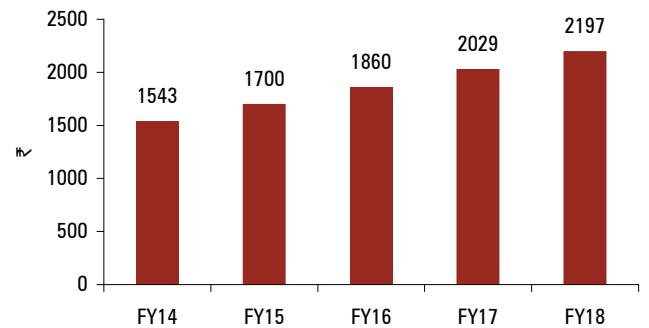
Source: Company, ICICI Direct Research

Exhibit 5: Westside: Sales per square foot grows at CAGR of 6% in F14-18 on account of higher ticket size and space rationalisation

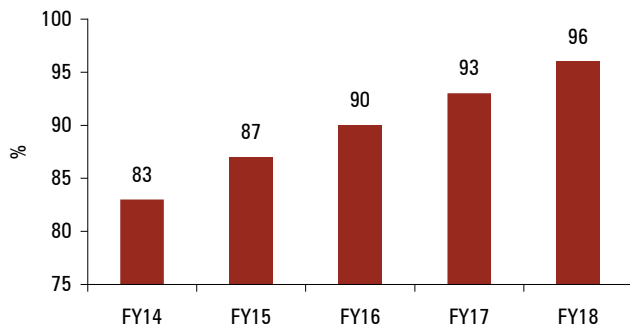


Source: Company, ICICI Direct Research

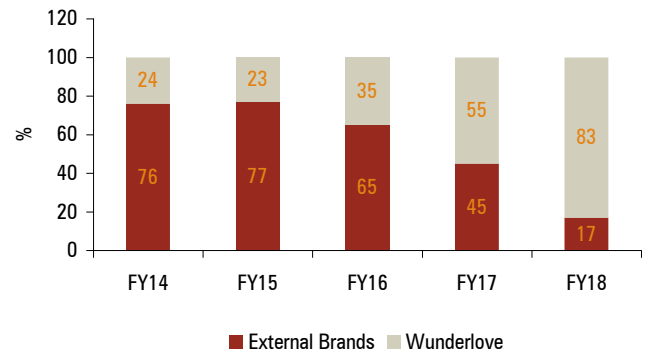
Exhibit 6: Westside: Average ticket size trend (₹)



Source: Company, ICICI Direct Research

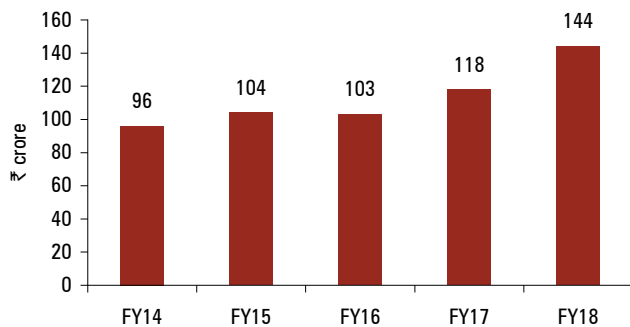
Exhibit 7: Westside: Private label brand contribution to revenues (%)


Source: Company, ICICI Direct Research

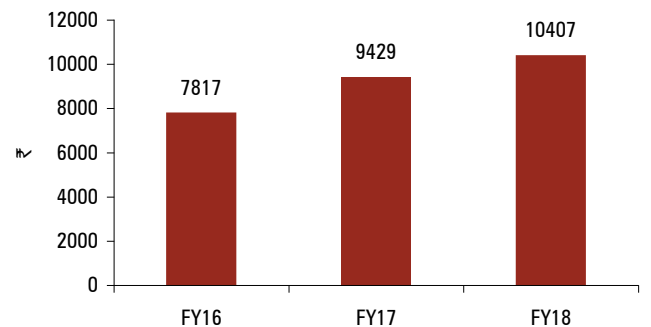
Exhibit 8: Westside: Share of Wunderlove in lingerie (%)


Source: Company, ICICI Direct Research

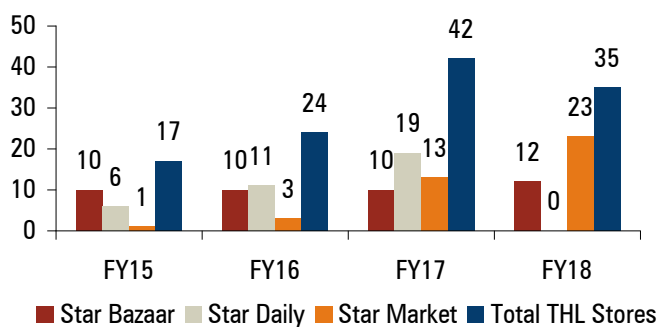
We believe the ability of Trent to build own brands is unique as it has increased the share of private labels from 80% in FY13 to 96% in FY18. Its own brands like Wunderlove (lingerie), Studiowest (cosmetics) and Bombay Paisley (fusion wear) have grown at a rapid pace. For instance, Wunderlove brand, which had a share of 24% share (FY13) in Westside's lingerie wear segment, has scaled up to 83% in FY18.

Exhibit 9: Zudio revenue trend; Retails through seven EBOs, 15 SIS under Star banner


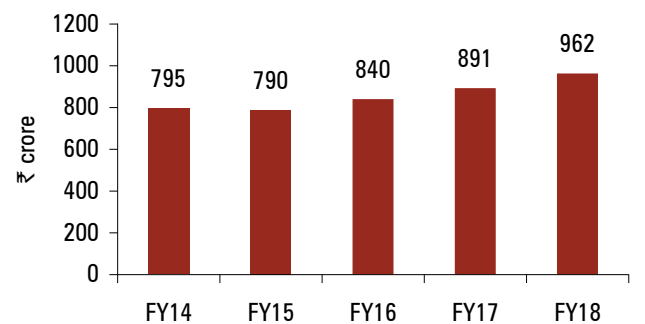
Source: Company, ICICI Direct Research. ₹ 58 crore recognised as revenues in FY18 as it was acquired in October 1, 2017.

Exhibit 10: Zudio revenue per sq feet trend


Source: Company, ICICI Direct Research

Exhibit 11: Management believes Star Market to be sustainable format going forward, while all 19 Star Daily stores have been shut in FY18


Source: Company, ICICI Direct Research

Exhibit 12: THPL revenue trend


Source: Company, ICICI Direct Research. Revenues including other income

Accelerated store expansion in the Westside format with calibrated store expansion in other formats like Zudio, Zara and Star market would provide an impetus to revenue growth, going ahead. Also, a change in strategy to focus on medium format stores (5000-10000 sq ft) under Star banner and improvement in Zara margins would provide an additional delta in profitability for Trent. We expect revenue, EBITDA to grow at a CAGR of 20%, 27%, respectively, in FY18-20E. We maintain our **BUY** recommendation on the stock with a target price of ₹ 380.

Exhibit 13: Valuation

	Financial	FY20E (₹ cr)	Target Multiple	EV	(₹ cr)		Targeted Mcap (₹ cr)
					Cash	Debt	
Standalone revenues	Sales	2948	3.2x EV/Sales	9462	41	340	9163
Trent Hypermarket Ltd	Sales	621	1.5x EV/Sales	932	25		957
Trent -Inditex (Zara)	Sales	841	3.0x EV/Sales	2522	16		2538
Target Market Cap. (₹ cr)							12658
Target Price (₹)							380

Source: Company, ICICI Direct Research

Financial summary (Consolidated)

Profit and loss statement	₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E
Total operating Income	1,833.9	2,157.5	2,624.9	3,096.1
Growth (%)	15.4	17.6	21.7	18.0
Cost of Goods Sold	902.8	1,031.5	1,236.3	1,452.1
Gross Margin (%)	50.8	52.2	52.9	53.1
Employee Expenses	192.5	230.5	275.6	325.1
Operating & Other Expenses	612.9	694.3	845.7	994.7
Total Operating Expenditure	1,708.2	1,956.3	2,357.6	2,771.8
EBITDA	125.7	201.2	267.3	324.3
Growth (%)	35.5	60.0	32.9	21.3
Depreciation	41.3	45.5	52.3	59.0
Interest	33.8	30.6	28.3	26.6
Other Income	60.5	44.2	52.5	61.9
PBT	110.7	169.3	239.2	300.7
Total Tax	43.1	59.6	83.7	105.2
PAT	67.6	109.7	155.5	195.4
Minority Interest	0.0	0.0	0.1	0.1
Share of Profit from JV	-9.0	-22.6	27.1	46.0
PAT	58.7	87.0	182.5	241.3
Growth (%)		48.4	109.7	32.2
Extraordinary item	26.3	0.0	0.0	0.0
Reported PAT	84.9	87.0	182.5	241.3
EPS (₹)	2.6	2.6	5.5	7.3

Source: Company, ICICI Direct Research

Cash flow statement	₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E
Profit after tax	84.9	87.0	182.5	241.3
Add: Depreciation	41.3	45.5	52.3	59.0
(Inc)/dec in Current Assets	-19.2	-68.2	-66.4	-100.2
Inc/(dec) in CL and Provisions	-17.1	65.3	77.7	71.4
Others	0.0	0.0	0.0	0.0
CF from operating activities	90.0	129.6	246.1	271.5
(Inc)/dec in Investments	-46.7	57.6	-21.1	-21.5
(Inc)/dec in Fixed Assets	-78.3	-82.4	-100.2	-108.3
(Inc)/dec in CWIP	48.2	-4.1	9.6	0.0
Others	2.2	-68.9	-34.0	-13.1
CF from investing activities	-74.6	-97.8	-145.8	-142.9
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-8.1	-4.3	-28.1	-22.9
Others	0.1	-29.0	-72.9	-96.4
CF from financing activities	-8.0	-33.4	-101.0	-119.3
Net Cash flow	7.4	-1.5	-0.6	9.3
Opening Cash	26.9	34.3	32.8	32.2
Closing Cash	34.3	32.8	32.2	41.4

Source: Company, ICICI Direct Research

Balance sheet	₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E
Liabilities				
Equity Capital	33.2	33.2	33.2	33.2
Reserve and Surplus	1,514.5	1,562.1	1,671.7	1,816.4
Total Shareholders funds	1,547.7	1,595.4	1,704.9	1,849.7
Total Debt	395.7	391.4	363.4	340.4
Other LT Liabilities	2.4	2.3	2.5	2.6
Deferred Tax Liability	9.0	19.3	19.3	19.3
Minority Interest / Others	0.8	0.8	0.8	0.8
Total Liabilities	1,955.5	2,009.2	2,090.7	2,212.7
Assets				
Gross Block	693.4	742.9	843.2	951.4
Less: Acc Depreciation	207.7	231.5	283.8	342.8
Capital WIP	5.5	9.6	0.0	0.0
Total Fixed Assets	485.4	521.0	559.4	608.7
Investments	1,113.6	1,056.0	1,077.2	1,098.7
Other Non-current Assets	55.7	97.1	131.1	144.2
Goodwill	35.1	67.9	67.9	67.9
Deferred Tax Asset	0.0	0.0	0.0	0.0
Inventory	305.4	344.8	388.3	458.1
Debtors	5.9	15.1	15.8	18.7
Loans and Advances	137.2	140.3	147.3	156.2
Cash	34.3	32.8	32.2	41.4
Other Current Assets	43.8	60.3	75.4	94.2
Total Current Assets	526.6	593.3	659.0	768.5
Creditors	142.2	208.4	220.2	258.6
Other Current Liab. & Prov.	118.8	117.8	183.7	216.7
Total Current Liabilities	261.0	326.2	403.9	475.3
Net Current Assets	265.6	267.1	255.1	293.2
Application of Funds	1,955.5	2,009.2	2,090.7	2,212.7

Source: Company, ICICI Direct Research

Key ratios	FY17			
(Year-end March)	FY17	FY18	FY19E	FY20E
Per share data (₹) (annualised)				
EPS	2.6	2.6	5.5	7.3
Cash EPS	3.8	4.0	7.1	9.0
BV	46.6	48.0	51.3	55.7
DPS	0.0	1.2	2.2	2.9
Cash Per Share	1.0	1.0	1.0	1.2
Operating Ratios				
EBITDA Margin (%)	6.9	9.3	10.2	10.5
PBT Margin (%)	6.0	7.8	9.1	9.7
PAT Margin (%)	4.6	4.0	7.0	7.8
Inventory days	60.8	58.3	54.0	54.0
Debtor days	1.2	2.6	2.2	2.2
Creditor days	48.1	51.7	52.5	52.4
Return Ratios (%)				
RoE	3.8	5.5	10.7	13.1
RoCE	7.4	10.0	12.9	14.9
RoIC	10.7	17.5	22.4	25.3
Valuation Ratios (x) (annualised)				
P/E	179.0	120.6	57.5	43.5
EV / EBITDA	86.4	54.0	40.5	33.3
EV / Net Sales	5.9	5.0	4.1	3.5
Market Cap / Sales	5.7	4.9	4.0	3.4
Price to Book Value	6.8	6.6	6.2	5.7
Solvency Ratios				
Debt/EBITDA	3.1	1.9	1.4	1.0
Debt / Equity	0.3	0.2	0.2	0.2
Current Ratio	1.8	1.7	1.6	1.5
Quick Ratio	0.7	0.7	0.6	0.6

Source: Company, ICICI Direct Research

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Hold: Up to +/-10%;

Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No. 7, MIDC,
Andheri (East)
Mumbai – 400 093

research@icicidirect.com

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